

Geopolitical and Macroeconomic Trends Impacting the IT Landscape

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The Era of Uncertainty

As we enter the second half of 2024, many business leaders are striving to find stability in a global landscape that has been reshaped by half a decade of geopolitical tensions, economic volatility, and the lasting impacts of the pandemic.

Global markets experienced a variety of surprises and shocks in 2024. Elevated inflation, Muted growth, Abrupt banking crisis Inflation and Higher interest rates. Escalating geopolitical tensions. Global Supply Chain Disruptions.

What's happening?

Margin erosion from intensifying structural cost pressures Stagnant productivity Growing volatility of input cost inflation, making business and capital planning more challenging Increasingly complex supply chain management.

What are the implications?

Companies are currently prioritizing cost reduction and operational efficiency projects. Discretionary spend remains weak Long term deals are getting renegotiated and new deals are delayed Leverage AI-infused solutions & labor arbitrage for cost-efficiencies Streamlining the operating models.

How are organizations responding?

Reference: <https://www.accenture.com/content/dam/accenture/final/accenture-com/document-2/Accenture-Great-Supply-Squeeze-POV-Final.pdf#zoom=40>

Rising geopolitical tensions are testing the resilience of global organizations and challenging existing growth strategies

Reference: <https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/can-your-company-remain-global-and-if-so-how#/>

Geopolitical developments

Geopolitical risk is structurally elevated as we begin the second half of the year, in our view. The world is entering the third distinct geopolitical era since World War Two, following the Cold War and post-Cold War eras, and is searching for a new equilibrium.

Source: <https://www.blackrock.com/corporate/insights/blackrock-investment-institute/interactive-charts/geopolitical-risk-dashboard>

Transition of political leadership

2024 is the year of national elections, with more than 60 countries and nearly 50 percent of the global population heading to the polls. Even if only a subset of these elections lead to shifts in leadership and policy, business leaders cannot ignore political uncertainty against the backdrop of an evolving global order.

Global Inflation and Recession fears

Global Inflation

Rising Prices: High inflation rates, driven by supply chain disruptions, increased energy prices, and post-pandemic demand, are affecting purchasing power and economic growth globally. **Central Bank Policies:** Central banks are responding with tighter monetary policies, including interest rate hikes, to control inflation, which impacts global borrowing costs and investment.

Considering recent economic developments, J.P. Morgan Research has raised the probability of a U.S. and global recession starting before end-2024 to 35%. The probability of a recession happening by the end of 2025 remains unchanged at 45%.

Key Areas: Persistent Inflation - The Federal Reserve has been aggressively raising interest rates to combat inflation. U.S. consumer spending, a major driver of the economy, has been slowing as high inflation erodes purchasing power. Corporate Cost-Cutting and Layoffs - In sectors like technology, finance, and retail are already laying off workers or cutting costs in anticipation of slower growth.

The global economic outlook regarding interest rates and inflation will likely be shaped by multiple factors, including the efforts of central banks to manage inflation, the geopolitical environment, and supply chain dynamics.

Reshaping production and supply chains for resilience

As companies confront a rapidly changing economic and geopolitical landscape, they must adapt their supply chains to be more resilient, diversified, and sustainable.

The U.S. and Europe have accelerated efforts to reduce dependence on China, especially in sectors like technology, pharmaceuticals, and critical minerals. This "decoupling" is forcing businesses to relocate or diversify their supply chains to other regions like Southeast Asia, India, and Mexico. 'China Plus One' strategy, employed by businesses to diversify their manufacturing or sourcing beyond China by adding at least one additional country to their supply chain. Vietnam is benefiting from onshoring and the 'China Plus One' strategy in several ways. The country offers lower labor costs compared to China, making it attractive for businesses looking to maintain competitive pricing. Resilience and Localization: There is a greater focus on building resilient and localized supply chains to mitigate risks from geopolitical tensions and pandemics.

2025 Global outlook

Prospects for 2025 are better, with inflation expected to return towards target and central banks more confident to cut policy rates from the current restrictive levels.

Geopolitical developments – Business considerations

Diversifying your customer base helps stabilize revenue streams and reduce the volatility of your business performance.

Expanding Market Presence: Focusing on expanding market presence in regions less affected by US-China tensions, such as Europe, Southeast Asia, and the Middle East. Demand from US has been sluggish in 2024: TCS plans to diversify its focus to new markets like Japan, Latin America, and Southern Europe due to a slowdown in North America. Revenue from its core North American market has seen a decline since four consecutive quarters.

Geographic expansion

Sectoral Diversification: Diversifying client portfolios across different sectors such as healthcare, finance, retail, and manufacturing to mitigate sector-specific risks. Indian IT firms are interested in manufacturing, automobile, retail, pharmaceutical, and healthcare industries are witnessing strong traction across geographies.

SME Market Focus: Tapping into the small and medium-sized enterprises (SME) market, which is less impacted by geopolitical issues compared to large multinational corporations. Asia, the most economically integrated region besides Europe, is well-positioned for growth in the coming years.

Client Diversification

Globant Growth Story

Globant, a leading digital transformation services company, reported 21% YoY revenue growth in Q1 2024, making it the fastest growing of the service providers in the last quarter.

Focus on Emerging Technologies Globant Announces USD 1 Billion Investment in Latin America to Strengthen Its presence in the region, focusing on AI, blockchain, quantum computing, and robotics.

Geographic Expansion Globant has strategically expanded its geographic presence, with significant revenue contributions from North America, Latin America, Europe, and emerging markets.

Customer Diversification Globant served a total of 955 customers, with 318 accounts generating more than \$1 million in annual revenues. This diversification reduces dependency on a few major clients and spreads revenue risk across a broader customer base■.

Strategic Acquisitions and Partnerships Globant beefed up its offerings and geographical diversification through acquisitions, including Adbid (LATAM), Vertic (Denmark), KTBO (Mexico), GUT (US), Fivvy (banking, US), ExperienceIT (healthcare, North America), Iteris (tech consulting, Brazil), and Pentalog (digital transformation, France).

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